



The Price of Confidence

Global Portfolio Strategy
Third Quarter 2025

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On Confidence and Capital

Focus creates clarity.

Efficient capital follows truth, not trend.

Seek value where others see volatility.

Trust must be earned again — in policy, in price, in purpose.

Inspire resilience by grounding optimism in evidence.

Value conviction only when it is measured.

Align portfolios with principles, not fashion.

Lead with discipline — the final expression of confidence.

GLOBAL PORTFOLIO STRATEGY

The Price of Confidence

Confidence Game. Confidence is the most expensive currency in markets. Investors trade it freely when liquidity is abundant and hoard it when policy shifts. After two years of extraordinary gains driven by artificial intelligence, fiscal largesse, and monetary complacency, the question confronting markets is whether confidence is priced correctly or has become another leveraged asset. Real yields remain above two percent, signaling investors' demand for protection amid rising debt and policy inconsistency. Fiscal deficits continue to exceed five percent of GDP, despite record employment. Equity valuations hover near historical peaks, even as earnings breadth narrows. Confidence has replaced fundamentals as the anchor of valuation. In this environment, capital discipline defines success, not exuberance. The cost of confidence is rising, and the gap between perception and performance widens each quarter.

A global equity market, led by a narrow cadre of US technology stocks, provides opportunities. The ethereal promise of artificial intelligence comes at a valuation that is both historically and relatively dear. Confidence has a price.

- Jason Prole

Leaders	Change	Asset	Change	P/E	Ratio
Gold	+16.6	Equities	+6.4	USA	28.7
US Tech	+13.1	Bonds	+2.0	Global xUS	17.1
Global xUS Tech	+11.8	Commodities	+6.0	EM	17.2
Laggards		Equity Region		P/B	
Global Bonds	-1.2%	USA	+5.0	USA	5.6
US Treasury	+1.5%	Global xUS	+4.0	Global xUS	2.1
Global xUS Growth	+1.7	EM	+6.5	EM	2.0

Source: Valuation data is from MSCI. Total quarterly returns calculated by CRM from the corresponding ETF.

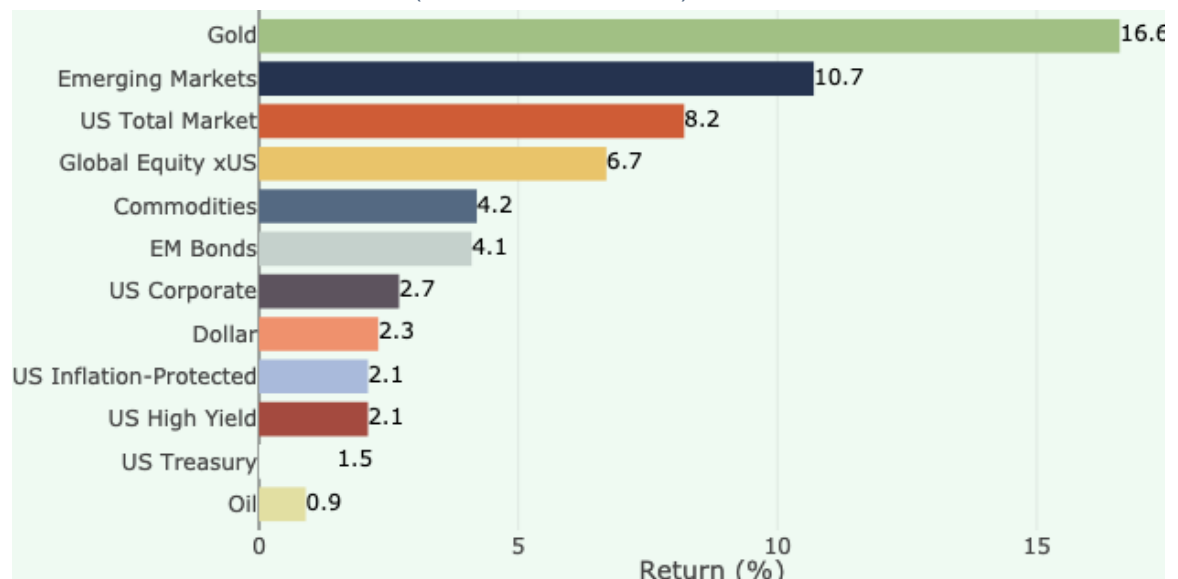
The Macro View

Confidence Reigns. Confidence is the most expensive currency in markets. It cannot be printed, legislated, or insured. It is earned through performance, borrowed through liquidity, and destroyed through inconsistency. Investors trade it freely when policy is predictable and liquidity abundant, but they hoard it when the rules begin to change. After two years of extraordinary gains—fueled by artificial intelligence, fiscal expansion, and monetary leniency—the defining question of 2025 is whether confidence remains correctly priced or overvalued.

The quarterly returns hint at the answer: all categories gained (Exhibit 1). Yet, the leadership of gold highlights the paradox: ebullient equity markets with a haven asset leading. Only one is right, and only time will tell. The current structural headwinds suggest equity exuberance will end sooner rather than later.

Across markets, confidence has displaced fundamentals as the anchor of valuation. Real yields above 2 percent suggest investors demand protection amid rising debt and policy uncertainty. Fiscal deficits persist above 5 percent of GDP, even with record employment, while higher borrowing costs strain household balance sheets. Equity markets hover near historical valuation peaks, powered by narrow leadership and declining breadth. The aesthetics of sentiment has replaced the arithmetic of solvency.

Exhibit 1. Asset Class Returns (Third Quarter 2025)



Source: IEX Cloud. CRM Calculations. Total returns from June 30 to September 30, 2025.

Gold leads as everything goes up.

The Macro View

This is not irrational exuberance; it is structured belief. It is a system of conviction built on repetition and scale: one that rewards narrative consistency more than earnings consistency. Investors have learned to conflate size with security and innovation with inevitability. The largest firms have become proxies for policy stability, their balance sheets viewed as extensions of sovereign strength. In the modern market, the megacap is not just a company; it is a currency. Technology firms are treated as the sovereigns of the digital economy: states unto themselves whose reach, data, and dominance render them seemingly immune to the business cycle. Meanwhile, leverage, liquidity risk, and stretched valuations are dismissed as relics of the industrial past. Confidence is the collateral of the portfolio: tradable, renewable, and dangerously cyclical.

Yet confidence is not capital; it is leverage disguised as conviction. It multiplies outcomes but does not create value. Each policy pivot, each fiscal deferral, each repricing of real yields adds another layer of fragility beneath the surface calm. Markets now price liquidity as if it were a law of nature rather than a temporary condition. The higher the cost of money, the more investors appear willing to pay for the illusion of permanence—for the comfort of believing that the structures built during zero-rate years can outlast arithmetic.

In this cycle, the premium once reserved for growth has migrated into belief itself: the belief that policy will adapt when stressed, that liquidity will return when summoned, that technology will deliver productivity fast enough to justify its own valuation. Confidence has become the new discount rate, lowering perceived risk even as real risk accumulates.

The coming quarters will test that premise. The spread between perception and performance is widening, and with it, the true cost of confidence. When trust, not capital, determines price, markets are no longer efficient—they are reflexive. In that environment, the ultimate advantage will belong to those who can price conviction precisely, who recognize that discipline, not optimism, is the purest and most enduring form of faith in markets.

***CRM View:** Confidence has replaced liquidity as the market's reserve currency. It fuels valuations, sustains deficits, and obscures risk and is not indefinite. In a leveraged world, discipline is the only form of confidence that compounds.*

The next phase will reward calibration, not conviction.

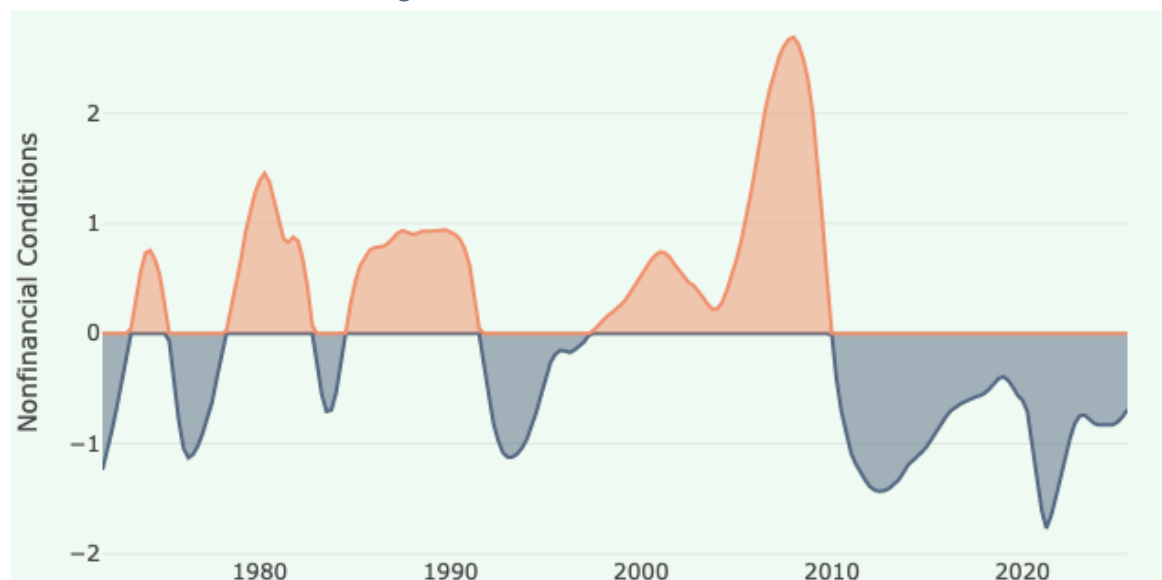
The Macro View

Loose Leverage. Confidence functions as a form of leverage: it amplifies returns during expansion and magnifies losses when the cycle turns. The U.S. economy continues to defy gravity: growth near two percent, unemployment under five, and inflation sticky around three. Yet, the fiscal arithmetic is unsustainable. Federal debt now exceeds 115% of GDP, a ratio not seen since the post-war boom, while interest expense consumes nearly 20% of federal revenue. The path to normalization is narrow. Either taxes rise or expenditures fall. Both are politically costly; neither is market-friendly.

The Federal Reserve's September rate cut, a modest 25 basis points, acknowledged the slowdown but not a surrender. Real yields remain restrictive, and liquidity conditions are tightening even as nominal rates decline. The paradox of the quarter is that markets interpret easing as confidence while policymakers see it as caution. Yet, the challenge is that nonfinancial leverage has been loose for over 15 years (Exhibit 2). This extraordinary period of expanding financial leverage is unparalleled. These conditions enabled a government and financial markets borrowing binge, which used low yields to earn excess returns.

CRM View: The price of confidence will be paid in lower returns.

Exhibit 2. Nonfinancial Leverage Conditions



Source: Chicago Federal Reserve, retrieved from FRED.

**Loose
financial
leverage
for 15 years.**

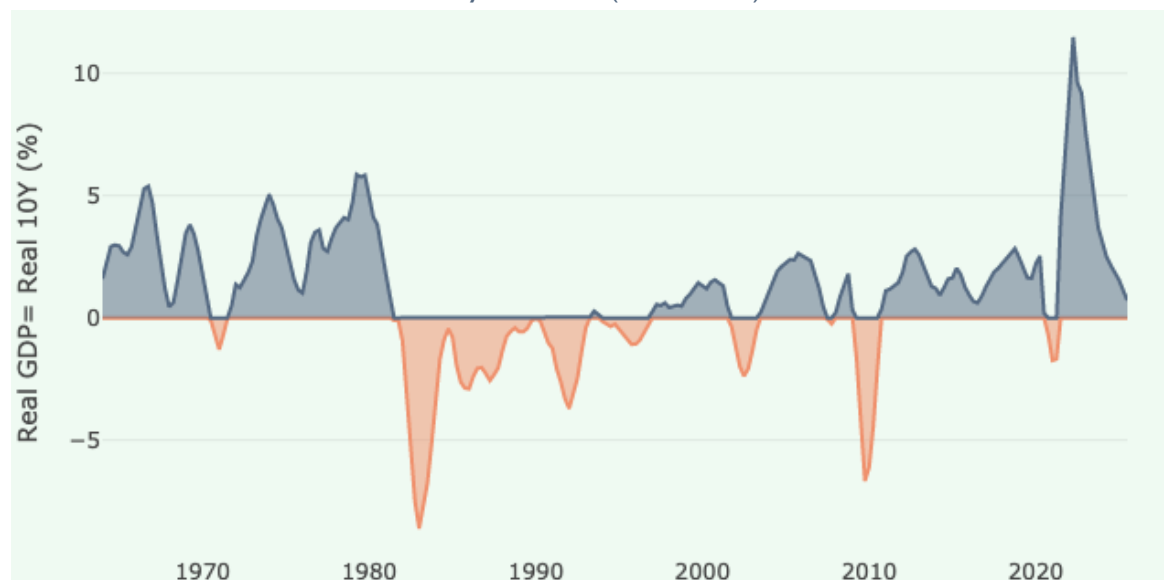
The Macro View

Cheap Financing. When real growth exceeds real yields, capital is accretive. When reversed, confidence outpaces cash flow. For much of the postwar period, that spread defined economic balance. Growth reliably exceeded real yields, allowing both public and private debt to compound without immediate consequence (Exhibit 3). Since the 1980s, the pattern has fractured. Every sustained period of real yield normalization (e.g., 1981, 2000, 2007, and 2023) has inverted the yield curve, signaling the exhaustion of prior excess. As real yields and real growth converge, the precarious situation leaves little margin for error.

For now, investors remain willing to finance fiscal imbalance, yet the arithmetic is unforgiving. When the growth premium collapses, debt service becomes real rather than nominal, and *confidence ceases to substitute for solvency*. The Fed's September rate cut was less a stimulus than a signal: a recognition that restrictive real rates are colliding with slowing momentum and tightening liquidity. Markets interpret accommodation as reassurance; policymakers see it as pre-emption. Yet the fundamental tension remains unresolved: either growth must slow or yields must fall. Neither outcome is consistent with sustained prosperity.

CRM View: *The equilibrium between growth and real yields is the economy's fulcrum of confidence. When that balance breaks, valuation compression follows. Policy may smooth volatility, but it cannot repeal arithmetic.*

Exhibit 3. Real GDP minus Real 10-year Yield (% , 4 QMA)



Source: Bureau of Economic Analysis and the Federal Reserve System, retrieved from FRED.

Real Growth
is *above* the
cost of debt.

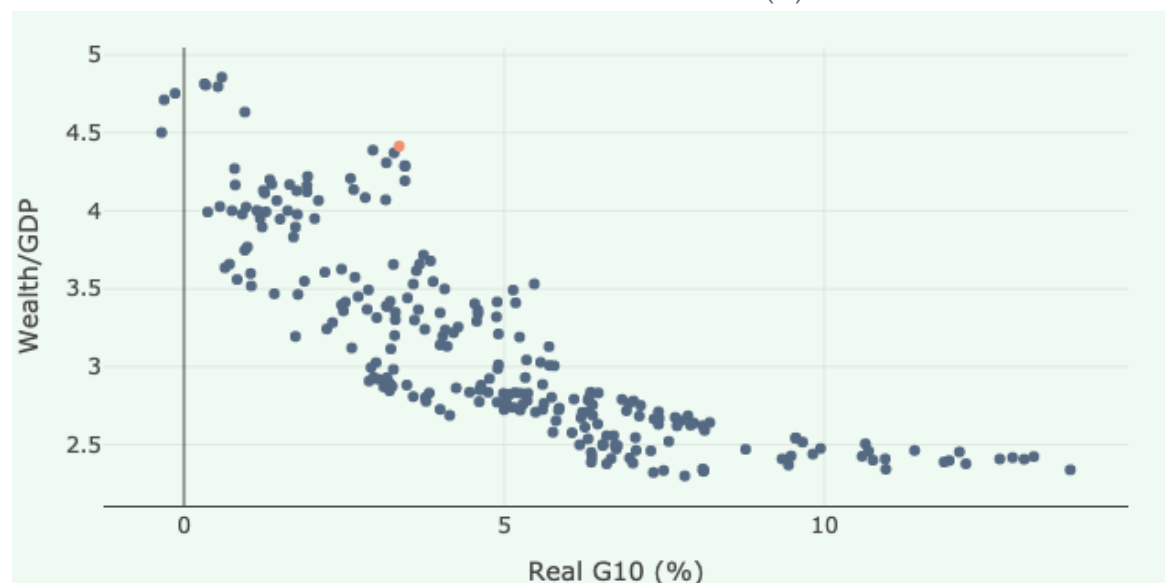
The Macro View

Peak Value. The relationship between the wealth/GDP ratio and real yields captures the mechanics of confidence as leverage. When the real cost of capital falls, valuations inflate —not just for equities and bonds, but for real estate and private assets as well. Investors extrapolate low discount rates into perpetuity, raising the price of all future cash flows. Conversely, as real yields normalize, the same leverage works in reverse, compressing valuation multiples and eroding the “wealth illusion” created by cheap capital.

The current wealth-to-GDP ratio is near 4.5, while the real yield is around 2 percent (Exhibit 4). Over the last sixty years, this sits at the upper bound of historical experience wealth, excluding the anomalous pandemic years. This elevated ratio underscores how *confidence, not cash flow*, now anchors asset prices. Despite higher funding costs and fiscal deterioration, investors continue to ascribe premium valuations to risk assets. The data imply that wealth remains priced for a regime of perpetually low real yields, even as policy has moved decisively in the opposite direction. Unless productivity accelerates materially, either wealth or real yields must lower, with the former more probable. As the cost of capital rises, the “price of confidence” will emerge—caveat emptor.

CRM View: This wealth valuation is unsustainable in this fiscal environment.

Exhibit 4. Ratio of Financial Wealth/GDP to Real 10-Year (%)



Source: Bureau of Economic Analysis & the Federal Reserve System, retrieved from FRED. Data quarterly from 1963. Orange dot reflects the most recent quarter, 2024Q2.

Only the pandemic valuation was higher.

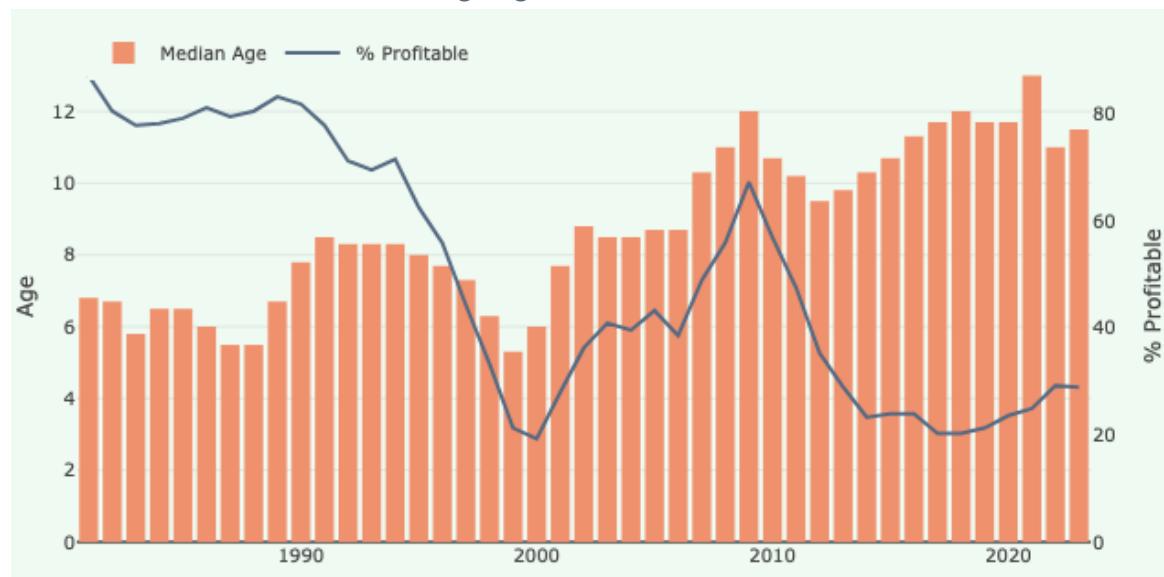
The Macro View

Unknown Exit. The typical private company now enters the public market nearly twice as old as it was in the early 2000s, yet with lower profitability (Exhibit 5). Private capital, buoyed by low real rates and abundant liquidity, has enabled firms to remain private for far longer, nurturing growth but also *shielding inefficiency and unsustainable business models*. Venture and private-equity investors became the custodians of optimism, financing scale instead of profits, confident that public markets would one day reward momentum over margins. That confidence was rational while capital was free.

The era of zero real yields blurred the line between *patient capital* and *speculative delay*. The arithmetic changes as real yields normalize. At some point, the public market will demand earnings rather than perpetual promises. The elongation of the IPO pipeline is a delayed reckoning: an accumulation of risk deferred by private balance sheets rather than resolved through competitive discipline.

The same forces that inflated wealth relative to GDP also inflated expectations of future profitability. Private valuations followed, permitting companies to postpone public scrutiny. Yet maturity does not translate into quality. Age without profitability is duration risk by another name: an asset extended on the assumption that confidence will always be available to refinance it.

Exhibit 5. U.S. Initial Public Offerings Age & Percent Profitable



Source: Ritter, Jay R. 2025. *Initial Public Offerings: Updated Statistics*. Table 4. Data is a 3-year moving average. Available at: <https://site.warrington.ufl.edu/ritter/ipo-data/>

IPOs are old
and *without*
profits.

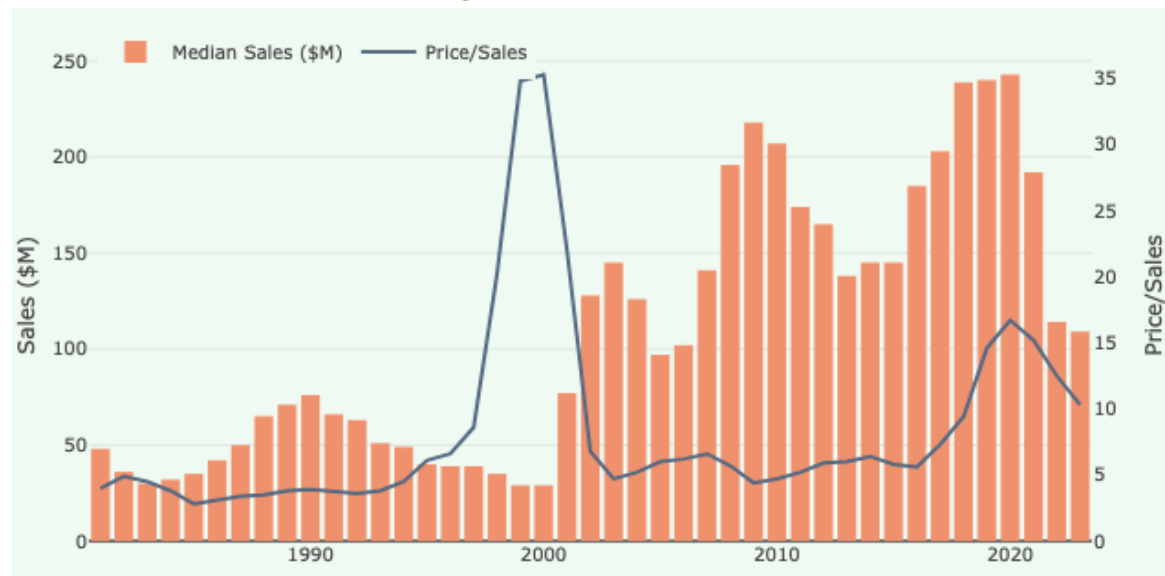
The Macro View

Valuing Scale. Over the past decade, median sales have grown steadily as firms are larger, better capitalized, and more mature when they reach the market. Yet valuation multiples have expanded far faster (Exhibit 6). In several recent vintages, investors paid six to eight times annual revenue for businesses that were not yet profitable, even as nominal interest rates rose. The pattern is the purest expression of *confidence as leverage*. Private markets, saturated with capital, produced scale; public markets, flush with liquidity, priced it as certainty. While the cost of capital fell, the *cost of conviction* rose, reflected in ever-higher multiples that depended on perpetual growth to justify them.

The irony is mathematical. Median sales have increased, but so have deficits and real yields. The structural forces supporting these multiples — abundant liquidity, fiscal tolerance, and speculative patience — are all receding. The chart thus marks the peak of an era in which scale replaced profitability as the metric of success. The normalization of real yields will compress both valuation and narrative. Charity begins at home, not in the marketplace.

CRM View: *As confidence ceases to substitute for discipline, price-to-sales ratios are likely to revert to fundamentals, closing the loop between wealth, age, and profitability.*

Exhibit 6. U.S. Initial Public Offerings Median Sales & Price/Sales



Source: Ritter, Jay R. 2025. *Initial Public Offerings: Updated Statistics*. Table 4a. Data is a 3-year moving average. Available at: <https://site.warrington.ufl.edu/ritter/ipo-data/>

More sales,
high
valuation.

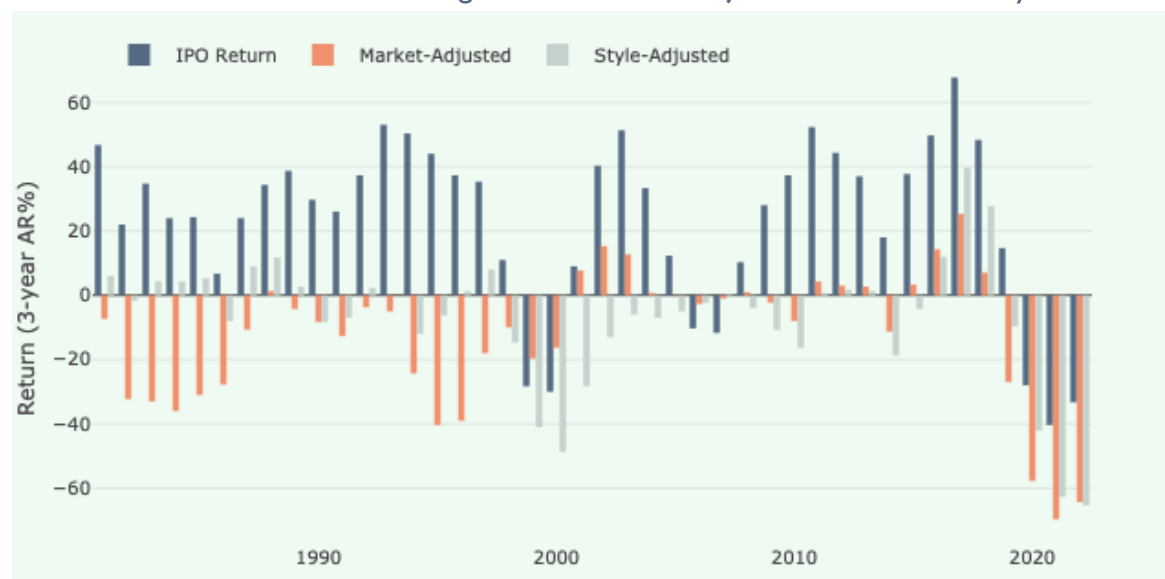
The Macro View

Unknown Exit. The story is cyclical yet unmistakable: eventually inflated confidence requires settlement. Each surge in IPOs, from the dot-com era to the post-pandemic boom, followed the same pattern: initial euphoria, then underperformance once the cost of confidence came due (Exhibit 7). Adjusting the return for style or market shows that this is not a matter of stock selection or factor exposure: newly listed companies consistently lag after the first three years. IPO returns rise during issuance booms as investors equate novelty with growth, only to fade as fundamentals reassert themselves.

The implication is structural: the premium paid for access to innovation systematically exceeds the realized return. In essence, investors have been overpaying for the story of growth, a recurring *tax on confidence*. The 2020–2021 cohort, nurtured by private capital, born into negative real yields, and listed amid record valuations, delivered some of the steepest three-year drawdowns on record. As liquidity withdrew and rates normalized, the narrative lost its multiple. The erosion in both the orange and gray bars underscores a simple truth: *what leverage builds, arithmetic dismantles*.

CRM View: Confidence is not free capital: it is deferred accountability. The coming decade will reward profitability, not promise; discipline, not duration.

Exhibit 7. U.S. Initial Public Offerings 3-Year Return Adjusted for Market & Style



Source: Ritter, Jay R. 2025. *Initial Public Offerings: Updated Statistics*. Table 19. Available at: <https://site.warrington.ufl.edu/ritter/ipo-data/>

Recent IPO
returns are
negative.

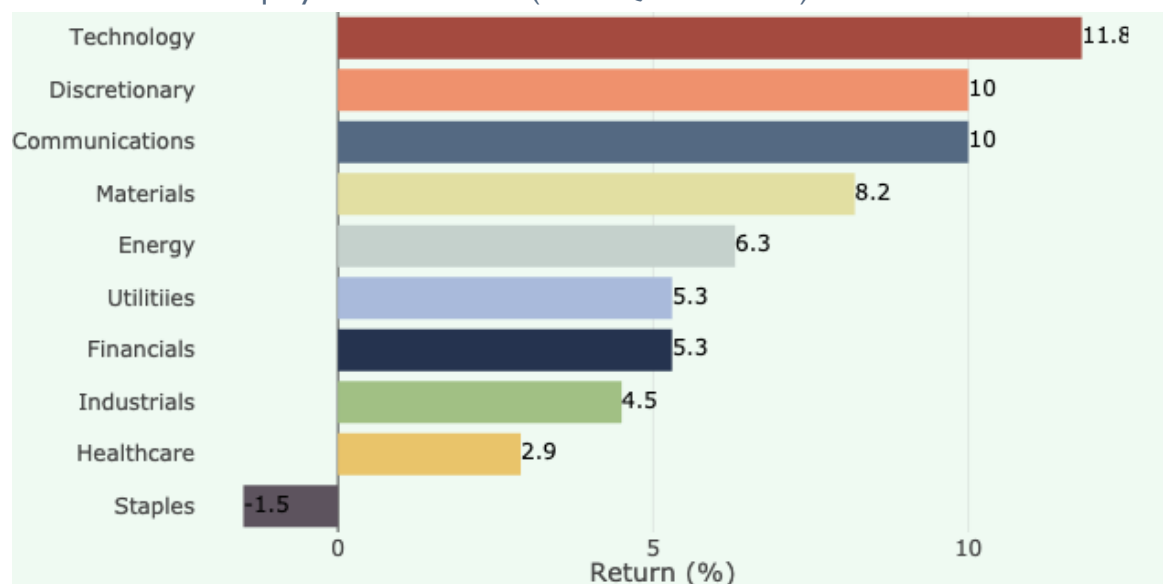
Equities

The distribution of equity returns across global sectors in the third quarter illustrates the market's narrowing conviction (Exhibit 8). Technology, Consumer Discretionary, and Communications—the three sectors most explicitly linked to artificial intelligence and digital scale—each delivered returns near or above 10 percent, accounting for nearly all the equity market's total advance. Beneath the surface, the picture is less resilient. Defensive and cyclical sectors underperformed (e.g., Healthcare, Industrials, & Financials), and Staples fell 1.5 percent. This performance mirrors *confidence-as-leverage*.

The sectors that benefit most from narrative momentum continue to attract capital, while those tied to actual demand lag. The dispersion between sectors rivals that of 1999, suggesting that the price of confidence is borne through reduced market breadth. Further, investors interpret minor policy easing as validation of long-duration equity exposure. Productivity gains from AI and digital infrastructure remain largely absent in the output data, yet they command a disproportionate share of market capitalization and investor enthusiasm. The premium for perceived innovation persists even as the cost of capital rises. The price of confidence is concentration: returns driven by belief, not breadth.

CRM View: Market leadership remains narrow. Sustaining this pattern requires both continued liquidity and narrative momentum. Neither is guaranteed.

Exhibit 8. Global Equity Sector Returns (Third Quarter 2025)



Source: IEX Cloud. CRM Calculations. Total returns from June 30 to September 30, 2025.

Sector
Rotation:
Confidence
Concentrated.

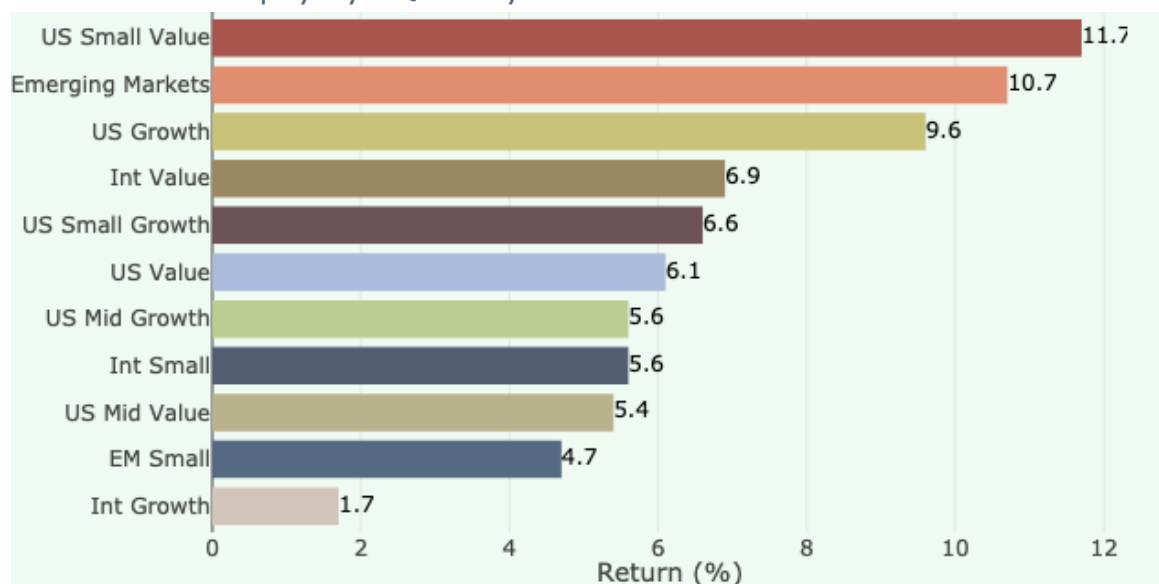
Equity Markets

Style Dispersion. Confidence expressed itself most aggressively in style and size. The quarter's strongest performance came from U.S. Small Value and Emerging Markets, followed closely by U.S. Growth (Exhibit 9). At the opposite end, International Growth was muted, underscoring how the global equity rally was both U.S.-centric and liquidity-selective. Investors are rotating toward assets that appear under-owned or shielded from US policy risk. Yet, the rotation remains funded by the same excess liquidity that lifted large-cap tech earlier. The pattern reflects an economy where confidence is *tactical rather than fundamental*.

Small-cap and value sectors, particularly in the U.S., benefited from short-covering and rate-cut speculation rather than an improved earnings outlook. Emerging Markets' strength represents the other side of the dollar's decline. Fiscal excess and real-rate differentials erode the currency's premium, channeling speculation into higher-beta economies. This dispersion echoes the imbalance between real growth and yields. As the cost of capital stabilizes and fiscal policy uncertainty remains high, capital flows toward perceived inefficiencies — an attempt to capture *alpha by neglect*. Much like the AI-driven surge in equities, this performance is confidence-dependent: the resulting rally appears superficially diversified yet lacks substance — *breadth without conviction*.

CRM View: *Style is in the late cycle phase. Breadth requires earnings, not expectations.*

Exhibit 9. Global Equity Style Quarterly Returns



Source: IEX Cloud. CRM Calculations. Total returns from June 30 to September 30, 2025.

Confidence
in Small
Packages.

Equity Markets

Changing Leadership. After nearly a decade of uninterrupted dominance, U.S. equities have finally begun to relinquish part of their performance premium: not through foreign strength, but through the arithmetic of valuation gravity that policy uncertainty magnifies. The last year marks an inflection point: as real yields rose and fiscal imbalances deepened, the same forces that amplified U.S. leadership began to erode it and to *retreat from exceptionalism* (Exhibit 10). The performance moderation does not signal a structural reversal. Europe remains constrained by an innovation gap and demographic headwinds; Japan by currency depreciation; and China by trade policy volatility. They rose by default, not by differentiation.

The U.S. still offers higher growth and innovation-led earnings, yet investors are beginning to price in the cost of its fiscal and policy asymmetry. The strength of the dollar, once a symbol of confidence, now doubles as a headwind for returns. In essence, the geography of confidence is changing. Capital is still concentrated in the U.S., but the marginal buyer is no longer indiscriminate. As liquidity fragments and valuation dispersion widens, global diversification is regaining its purpose as protection against policy and valuation fatigue. The decade-long advantage will normalize as real yields anchor valuations and fiscal risk re-prices the currency. The next phase of confidence will be selective, not national.

CRM View: U.S. equity leadership has peaked yet is not falling from policy uncertainty.

Exhibit 10. Global Equities Relative Performance of US/World ex-US



Source: IEX Cloud. Total returns Sept 2015 to Sept 2025. Ratio increases reflect US outperformance.

The US
relinquishes
the crown.

Equity Markets

Growth Returns. Over the last year, growth outperformed value by nearly 15 percent, reclaiming much of the dominance it held since 2016 (Exhibit 11). This growth leadership is not the result of renewed earnings momentum but of renewed confidence. Liquidity, not fundamentals, remains the marginal valuation determinant, which reinforces the narrative of confidence as leverage. Investors value long-duration stories at low rates, despite the rising cost of capital. The paradox is that the forces restraining growth at the macro level (e.g., rising debt service, narrowing fiscal space, and higher real yields) are supporting it at the market level by reinforcing the perception of *technological inevitability*.

Growth has become the refuge of belief; the asset class investors reach for when policy coherence is in short supply. Value, by contrast, remains tethered to the tangible economy: energy, manufacturing, and finance—all sectors sensitive to both inflation and discipline. As the Federal Reserve’s policy stance softened and AI-related capex steadied, capital rotated back toward duration and away from balance-sheet strength. The result is a market breathing through its narrowest lungs: *concentrated, narrative-driven, and increasingly self-referential*. Confidence functions as leverage: it lifts returns quickly, but the cost is fragility.

CRM View: *Markets are still priced for perfection. Without a sustained rebound in productivity or earnings breadth, this leadership will prove expensive to maintain.*

Exhibit 11. U.S. Equities Relative Performance by Style (Growth/Value)



Source: IEX Cloud. Total returns Sept 2015 to Sept 2025. Ratio increases are growth outperformance.

Growth's
leadership is
volatile.

Equity Markets

Size Matters. The pattern in Exhibit 12 is both familiar and revealing: the dominance of large-cap stocks has reasserted itself, widening the performance gap to nearly 50 percent since 2016. The past year shows that the structural advantage of scale persisted and that size itself has become an expression of confidence. Large companies flush with cash and able to self-finance are the preferred refuge amid fiscal strain and tightening credit. Small firms, once the beneficiaries of early-cycle recoveries, remain constrained by higher borrowing costs and limited access to capital markets. The yield curve may be inverted, but the cost of debt is not equal: the scale premium doubles as a credit premium.

This scale-driven outperformance is not merely structural: it is psychological. In an environment where confidence is scarce and policy credibility fragile, investors equate *size with safety*. The megacaps have become quasi-sovereign assets: beneficiaries of liquidity, regulators of index flows, and custodians of the market's collective belief. They represent not just companies, but proxies for stability. Yet the concentration also magnifies systemic risk. As confidence consolidates in fewer balance sheets, the market's resilience becomes dependent on their narrative cohesion. The line between liquidity preference and liquidity trap narrows: when *scale becomes safety, diversification ceases to function*.

CRM View: *The persistence of large-caps reflects the final phase of the confidence cycle. Liquidity trumps leverage, and scale substitutes for certainty. Yet fragility lingers.*

Exhibit 12. U.S. Equities Relative Performance by Size (Large/Small)



Source: IEX Cloud. Total returns Sept 2015 to Sept 2025. Ratio increases are large outperformance.

**The Scale
Premium
Expands.**

Equity Markets

Liquidity Mirage. After nearly a decade of unbroken dominance, U.S. equities remain ahead by roughly 70 percent since 2016. Yet, the past year reveals a subtle reversal: the line has begun to roll over, signaling a tentative shift in relative momentum (Exhibit 13). The US is the world's liquidity repository, yet the global geography of confidence is changing as real yields normalize, and the fiscal arithmetic grows heavier. That confidence is gradually migrating outward.

EM assets, long underperformers in the post-pandemic cycle, are attracting renewed attention as investors seek growth amid policy uncertainty. Emerging Markets are rising because U.S. valuations have paused, not because their fundamentals have improved. The rally has been powered by liquidity rotation, not productivity. Commodity prices have stabilized, the dollar has weakened modestly, and policy easing in China has revived some risk appetite. Yet, capital flows remain fickle. History shows that EM outperformance built on dollar softness rarely endures once global liquidity tightens again. Confidence has gone global, yet its foundation is still American liquidity.

***CRM View:** The apparent reawakening of Emerging Market performance is a mirage of relative liquidity, not the dawn of a new growth cycle. Until real yields decline or U.S. policy redistributes capital structurally, EM rallies will remain cyclical and self-limiting. Confidence can migrate, but it rarely multiplies.*

Exhibit 13. Global Equities Performance of U.S./Emerging Markets



Source: IEX Cloud. ITOT & EEM total returns. Ratio increases reflect U.S. outperformance.

A declining dollar impedes US leadership.

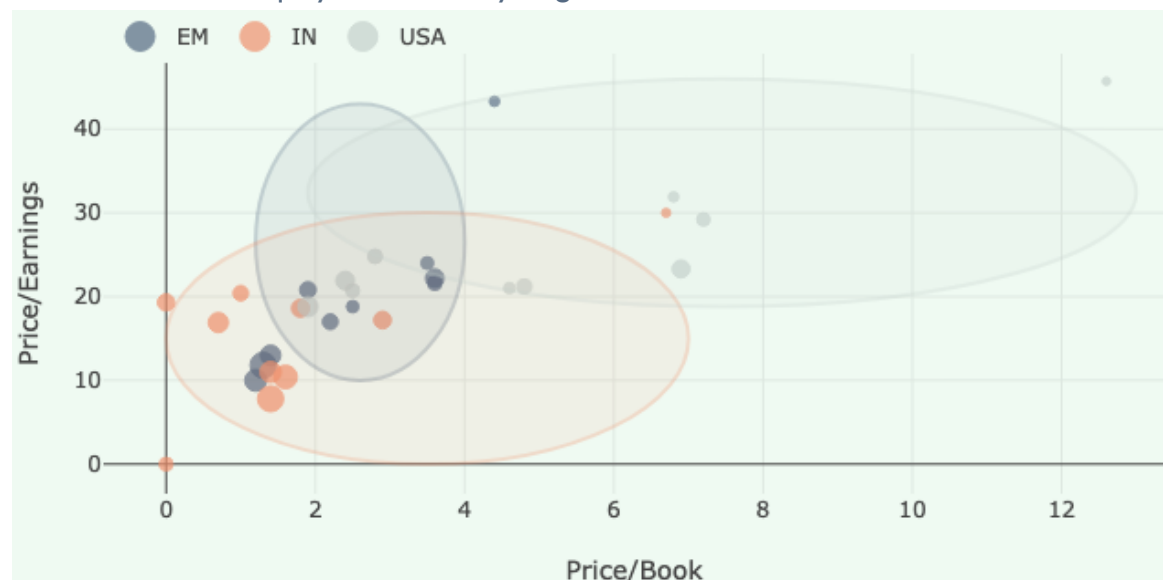
Equity Markets

Valuing Geography. The picture in Exhibit 14 is as striking as it is familiar: the U.S. trades at a valuation frontier of its own, far removed from the rest of the world. American equities command both the highest price-to-book and the highest price-to-earnings multiples, justified by their dominant profitability and innovation leadership, yet sustained by a deeper factor: confidence. Investors continue to pay premium prices for U.S. assets because they trust its capital markets, its liquidity, and its policy. In effect, the U.S. is a benchmark of belief.

The Emerging Markets cluster sits tightly around the lower-left: cheaper by both book and earnings, with higher dividend yields. These markets trade on tangible assets and cyclical growth, not on scale or narrative. Their discount reflects not merely risk, but the absence of faith in earnings quality or governance. In contrast, International markets lie between these two extremes: moderately valued, modestly profitable, and chronically overlooked. Their valuations are disciplined not by exuberance, but by demography and policy inertia. In the hierarchy of global confidence, they are neither aspirants (EM) nor anchors (U.S.), but stabilizers: pricing realism rather than hope.

CRM View: The U.S. premium is a valuation of institutional credibility. As fiscal fragility and policy uncertainty rise, that premium becomes harder to defend. The global investor's task is to distinguish between markets priced for performance and faith.

Exhibit 14. Global Equity Valuations by Region and Sector



Source: MSCI Indices. Marker size reflects the dividend yield (larger = higher), as of Sept 2025.

Dispersion
provides
opportunity
between
regions and
in the US.

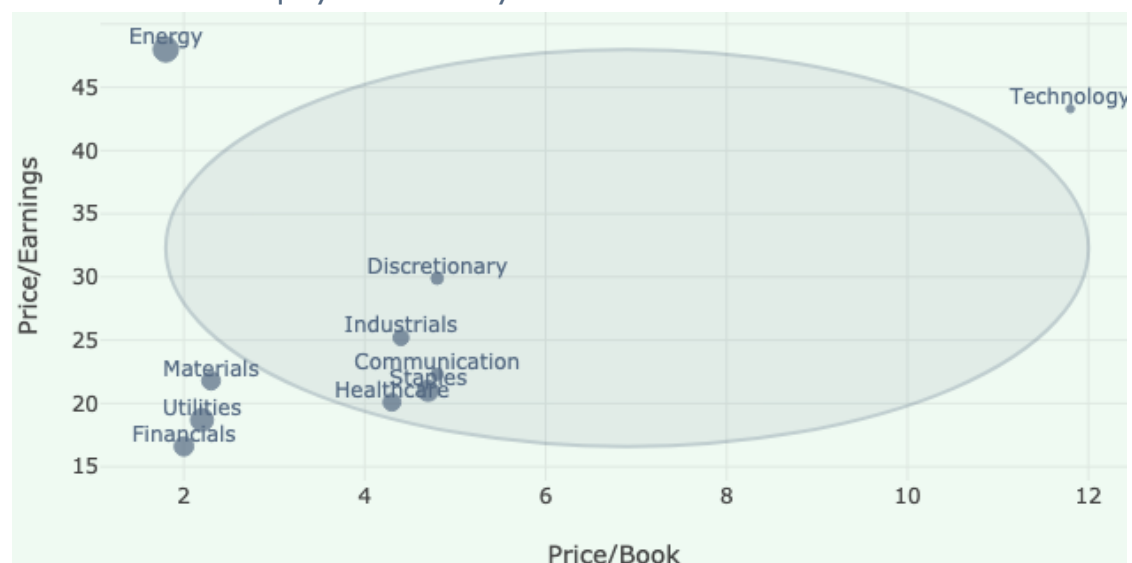
Equity Markets

Architecting Confidence. Sector multiples have diverged in the confidence cycle (Exhibit 15). At one extreme sits Technology, trading at 12x price-to-book and 40x price-to-earnings ratios: levels that defy historical precedent outside the late 1990s. This is the sectoral embodiment of confidence as leverage. Investors discount future innovation at a near-zero rate. The result is a valuation structure more dependent on perpetual innovation than on the balance sheet.

In contrast, the Energy sector, positioned at the opposite corner of the chart, trades near a 2x book value and under 15x earnings despite record free cash flow and disciplined capital spending. The divergence between Energy and Technology thus represents not just a difference in business models, but a difference in time horizons: between companies valued for what they earn today and those valued for what they might invent tomorrow. Further, the central cluster forms the market's structural spine. These sectors trade on stable earnings and modest valuations, offering real cash flow yet little narrative promise. They signal how confidence has migrated toward speculative duration and away from cyclical certainty. The structure is both elegant and unstable: sustained by liquidity, vulnerable to math.

CRM View: *The premium of innovation over income is the defining imbalance. The architecture of confidence remains impressive: constructed on confidence, not limestone.*

Exhibit 15. Global Equity Valuations by Sector



Source: MSCI Indices. Marker size reflects the dividend yield (larger = higher), as of Sept 2025.

Belief
Over
Income.

Equity Markets

Extraordinary Value. The US trades near 5x book value and above 25x earnings, a full standard deviation above its developed peers (Exhibit 16). This premium is not solely a function of earnings quality or innovation; it reflects the market's confidence in U.S. institutions, liquidity, and scale. Investors pay more for U.S. assets because they represent both return *and* refuge. Closer to the center, Canada and Australia are at moderate valuations due to their resource-linked markets, credible governance, and stable dividends. They benefit from U.S. proximity in both trade and policy coherence, yet lack the technological leverage. The valuation gap is not an anomaly; it is the price of confidence in US technology.

In contrast, on the lower left of the plot lie Emerging Markets, trading at half the U.S. multiple by both book and earnings. Their higher dividend yields compensate for structural volatility but cannot offset the confidence discount. Japan, traditionally the cheapest developed market, remains discounted despite corporate reforms and a weaker yen; its valuation reflects persistent skepticism about the durability of growth. The UK and Europe cluster in the same region: inexpensive, income-generating, and under-owned. They represent the value side of global diversification: the assets investors rediscover only when liquidity tightens and U.S. risk feels expensive. The structural challenge for investors is that the global equity risk premium is fractured: the U.S. trades on belief, while the rest of the world trades on yield.

Exhibit 16. Global Equity Valuations by Region



Source: MSCI Indices. Size of the marker reflects the dividend yield (larger is higher) as of Sept 2025.

The US Sells
a Premium
Product.

Equity Markets

The Cost of Concentration

The third quarter closed with equities near record highs, but the structure of those gains reveals more fragility than strength. From the data, a consistent pattern emerges: performance remains narrow, valuation rich, and confidence deeply embedded in a handful of narratives. The dispersion of returns across sectors, styles, and regions has become the new definition of diversification—broad in appearance, shallow in conviction.

Technology, Consumer Discretionary, and Communication Services continue to command the market's imagination, while defensive and cyclical sectors lag despite solid earnings. Style leadership shifted only tactically this quarter: small-cap and emerging-market rallies offered breadth without durability. The data clearly validated continued U.S. dominance, even as it moderates; it still sets global benchmarks. What gains appear elsewhere stem more from relative valuation relief than from fundamental renewal. The geography of valuation premiums makes clear that the world now trades on confidence differentials rather than productivity differentials.

Confidence leverages returns, until it doesn't.

This is the equity expression of the broader macro thesis: confidence functions as leverage. When real yields stay high and liquidity thins, investors concentrate on perceived certainty: megacap balance sheets, technology narratives, and U.S. markets as global proxies for stability. The outcome is a market that is efficient at pricing belief but inefficient at distributing risk. Scale has become safety, and safety has become scarcity.

The valuation architecture shows the cost of that scarcity. The U.S. trades at a multiple that assumes policy credibility, while the rest of the world trades at a discount that assumes none. Such asymmetry is not sustainable. Either global earnings must accelerate, or U.S. valuations must compress. History suggests the adjustment will come through prices, not profits.

***CRM View:** Equity markets remain driven by the confidence premium rather than the growth premium. Returns from here will depend less on expansion than on endurance—on which markets, sectors, and investors can maintain discipline when belief itself becomes the most volatile asset class.*

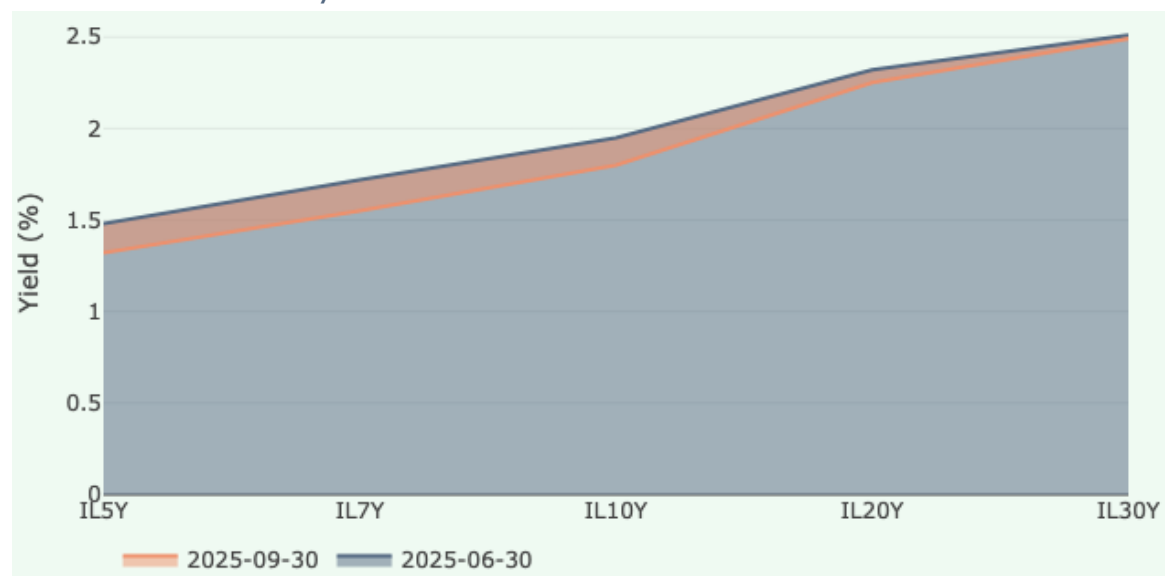
Fixed Income

Price Premium. The entire TIPS yield curve shifted lower during the quarter, with decreases of roughly 15 to 20 basis points across maturities. (Exhibit 17). The shift appears subtle, but its implications are profound: the cost of confidence is now measurable in real terms. Since 2009, real yields have remained persistently above real growth, allowing the economy to grow above the cost of borrowing, a free lunch, if you will. The recent convergence of real yields and growth indicates that there are no longer any free lunches. This configuration historically precedes valuation compression across both bonds and equities.

The shape of this curve reflects the market's uneasy equilibrium: protection against inflation balanced against doubts about long-term fiscal sustainability. The modest steepening between June and September suggests investors still believe in policy discipline but demand a premium for duration risk. Confidence has not collapsed; it has become expensive. The rise in real yields is both a symptom and a signal: markets no longer price the Federal Reserve as an unconditional backstop. Instead, they price arithmetic: demanding compensation for time, risk, and fiscal excess. The real yield is the market's benchmark for fiscal prudence. When it is above real growth, confidence must be financed.

CRM View: *The TIPS curve captures the transition from liquidity-driven optimism to discipline-driven returns. Real yields now anchor valuation across all asset classes. In this environment, confidence is no longer free—it carries interest.*

Exhibit 17. U.S. Treasury Inflation-Protected Yields



Source: Federal Reserve Economic Database

Growth is
no longer
free.

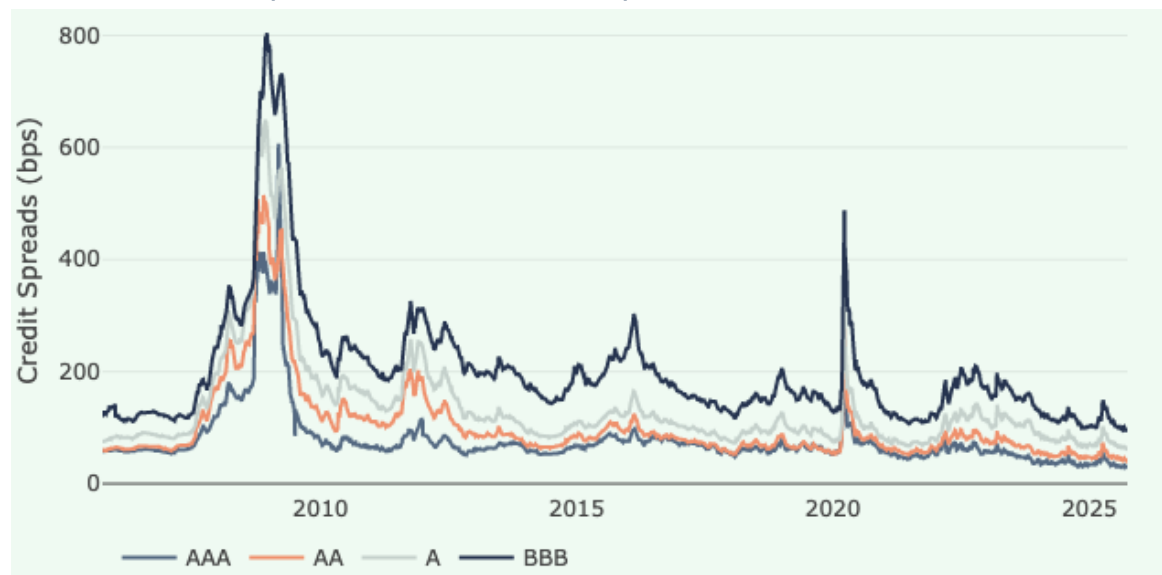
Fixed Income

Compression Risk. Despite tighter liquidity, higher real funding costs, and record public debt issuance, credit spreads remain near their narrowest levels in two decades (Exhibit 18). BBB spreads are only slightly wider than AA-rated bonds: a configuration that implies investors see minimal differentiation in risk. Credit markets are calm not because balance sheets are strong, but because confidence has replaced capital as the first line of defense. Yet the calm in public credit markets conceals a structural shift in the location of leverage. Over the past ten years, the private credit market has grown to the size of the U.S. leveraged loan and high-yield bond universe, absorbing risk that once would have been priced and traded publicly. This migration redefined the financial stability architecture: systemic exposure has not declined; it has merely become opaque.

**Credit
spreads are
too low for
the risk.**

Private credit funds, direct lenders, and hybrid vehicles now finance segments of the economy once reliant on syndicated or high-yield debt, often at higher leverage and weaker covenants. These flows sustain liquidity in appearance while eroding transparency in substance. Just as equity leadership narrowed to a handful of megacaps, credit concentration has migrated into private hands: a confidence trade without a clearing price. Public credit markets signal tranquility; private markets accumulate the volatility that public spreads no longer reflect. The history of credit cycles suggests that suppressed dispersion eventually seeks release.

Exhibit 18. U.S. Corporate Investment Grade Spreads



Source: ICE. Federal Reserve Economic Database

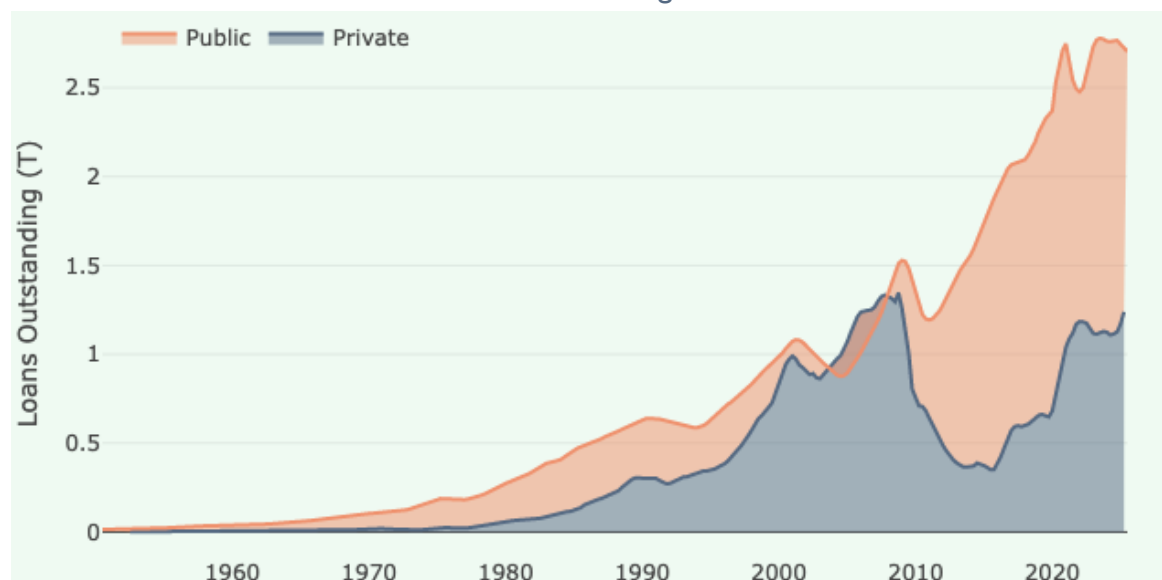
Fixed Income

For most of the postwar era, traditional banks dominated credit creation. They extended capital through regulated, transparent balance sheets, constrained by reserve requirements and deposit oversight. But in the mid-2000s, the center of credit gravity began to shift. First, the mortgage-backed security frenzy rose and fell in the late 2000s. After the financial crisis, private lenders filled the vacuum left by tighter bank regulation (Exhibit 19). This transformation represents a change in how risk is priced. This repricing migrated into private channels, where leverage is unquoted, terms are flexible, structures are floating-rate, and disclosure is minimal. The result is a system that appears publicly stable but is privately opaque: a market where confidence substitutes for transparency.

What makes this evolution critical is its scale, which exceeds \$1 trillion. The same liquidity that keeps public credit spreads narrow is being recycled into private portfolios at higher yields but lower visibility. The linkage to equity markets is unmistakable. Just as equity valuations reflect concentration and belief in scale, private credit growth reflects concentration and belief in permanence—the assumption that capital will always find a bid, even without a benchmark. Both rely on the same engine: confidence as collateral.

CRM View: The consequence of lending migration from public to private markets is leverage dispersion. The next crisis will emerge in private covenants, not public spreads.

Exhibit 19. US Public and Private Loan Outstanding



Source: Federal Reserve Board, Bank and Finance company loans. Federal Reserve Economic Database

Commodities

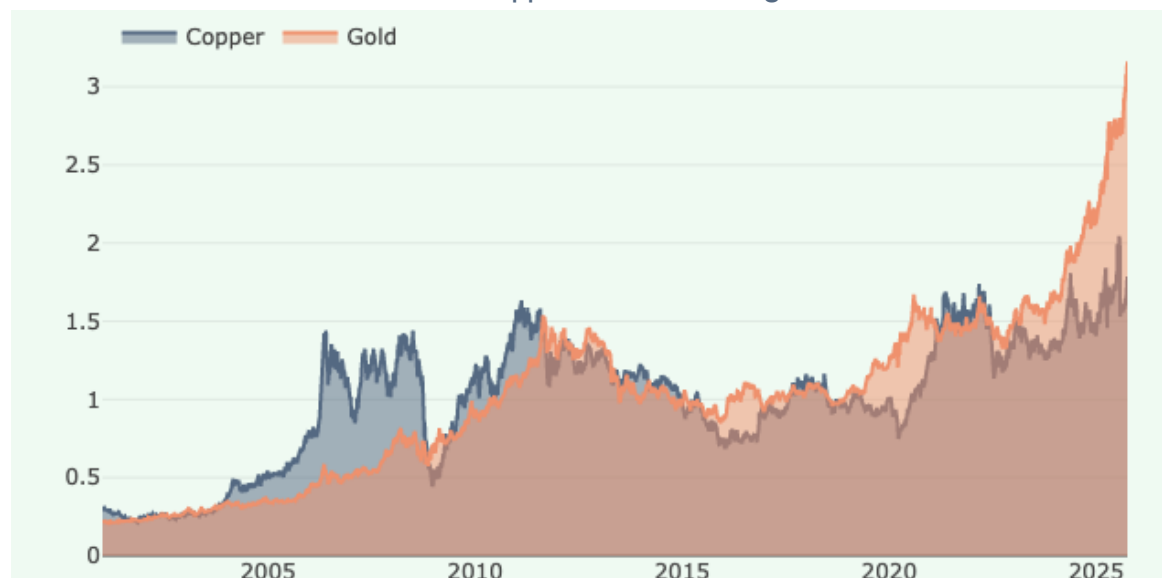
Fear & Function. Over the past two decades, these two metals have often moved in tandem: copper reflecting global growth and industrial demand, gold reflecting monetary confidence and the price of fear. Their divergence in 2025 is the physical manifestation of the themes traced throughout this report: growth slowing, confidence fading, and capital migrating from production to protection.

Gold rises when policy credibility weakens; copper rallies when confidence in growth is genuine—the widening gap between the two signals that investors are pricing in insurance, not prosperity. Gold’s acceleration underscores that fading faith in policy and its role as the asset of last resort in a cycle where deficits persist. In contrast, copper tells the story of constraint that reflects both cyclical cooling and structural inefficiency: slower manufacturing growth, fragmented supply chains, and the fiscal limits of green infrastructure ambitions.

The intermarket connections are evident. Equity leadership narrowed to belief-driven growth; credit spreads compressed while private leverage expanded. In commodities, the same tension surfaces in elemental form: gold, the store of belief, outpacing copper, the symbol of productivity. Confidence remains abundant, but inverted: investors buy scarcity to avoid loss, not risk for return.

CRM View: When everything else prices stability, the commodity that hedges against uncertainty —gold —becomes the market’s truest signal. Protection has a premium.

Exhibit 20. Price Ratio of Gold and Copper to their Average Values



Source: Yahoo Finance. CRM calculations.

**Fear elevates
as function
fades.**

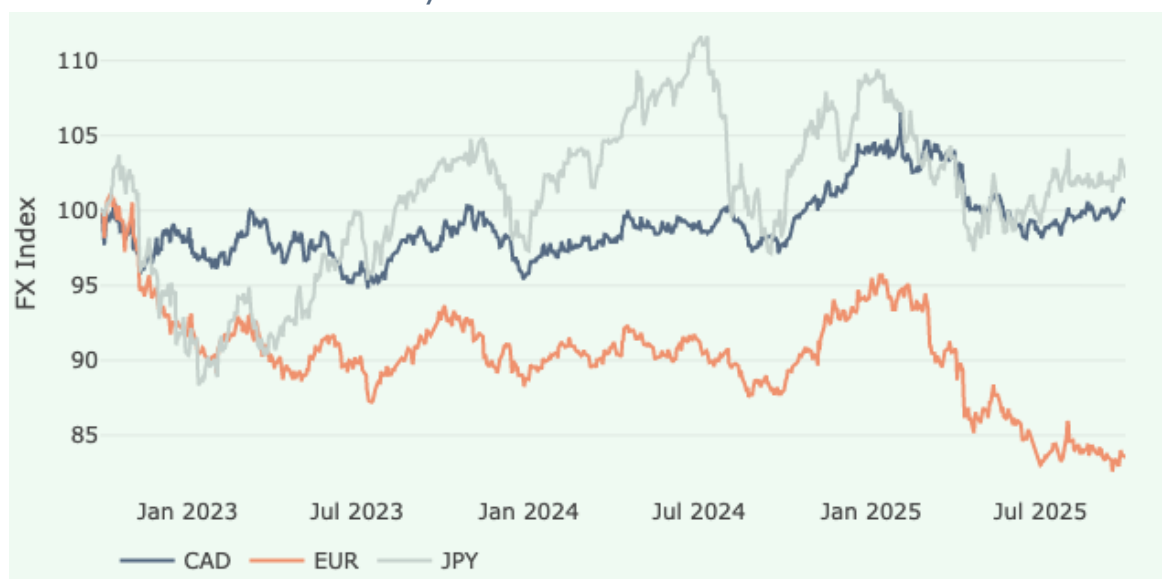
Currencies

Passing Privilege. A steady, broad-based weakening of major developed-market currencies against the dollar is occurring (Exhibit 21). Despite a widening U.S. fiscal deficit and persistent political gridlock, the dollar remains the world's preferred collateral. This paradox speaks to confidence as both a strength and a liability. The euro's decline since early 2024 reflects Europe's structural stagnation of high energy costs, weak industrial production, and the burden of policy fragmentation. The yen's volatility captures Japan's policy constraint: a central bank unable to normalize without destabilizing its debt market. The Canadian dollar, tethered to both commodity cycles and U.S. demand, has held steadier but remains confined within a narrow range. Together, these currencies illustrate the global imbalance in monetary credibility: the dollar benefits from relative dysfunction elsewhere rather than from domestic prudence.

This pattern links directly to the themes across asset classes, with the foreign exchange market expressing it in real time: dollar confidence is the global risk trade. Investors hold it because there is no other balance sheet large enough to absorb the world's caution, not because the U.S. is strong. The risk is that this confidence functions like leverage: self-reinforcing until it reverses.

CRM View: *The dollar's resilience reflects the lack of alternatives, not the restoration of discipline. Currency confidence mirrors the system that issues it: broad, deep, and fragile. In the global money hierarchy, the dollar remains the last safe asset of first resort.*

Exhibit 21. Normalized Currency Rates



Source: Alphavantage. A higher level indicates a stronger U.S. dollar.

**U.S. dollar
supremacy
is reversing.**

Discipline Restores Confidence

The third quarter of 2025 ends in paradox. Markets remain strong, yet conviction is fragile. Liquidity is ample, yet costly. Everywhere, the dominant pricing mechanism is not fundamentals; it's confidence — the world's most valuable and most leveraged asset.

Equities reflect this imbalance. Performance remains concentrated among megacaps whose scale now substitutes for safety. Diversification merely dilutes narrative exposure. Liquidity belief delays valuation compression. Confidence has become cyclical: rising with optimism, collapsing with arithmetic.

Credit markets mirror this pattern. Public spreads remain tight even as leverage migrates into private hands. The expansion of non-bank credit has not reduced systemic risk: it has re-packaged it without the transparency that once constrained excess. The calm in spreads conceals a deeper fragility: confidence has replaced collateral.

Commodities reveal the emotional core of the cycle. Gold trades on policy disbelief, copper trades on discipline. The divergence marks a shift from growth to preservation, echoing that protection, not production, demands a premium.

Currencies complete the circle. The dollar's former strength embodies both its privilege and its current peril. It remains the global store of liquidity because no credible alternative exists, not because U.S. policy inspires confidence.

Together, these signals describe a system that prices belief more than it prices risk. When confidence becomes leverage, every market depends on the continuity of faith. The price of confidence is therefore the cost of complacency: invisible until it compounds.

"When markets cease to price risk and instead price belief, every asset becomes a derivative of trust."

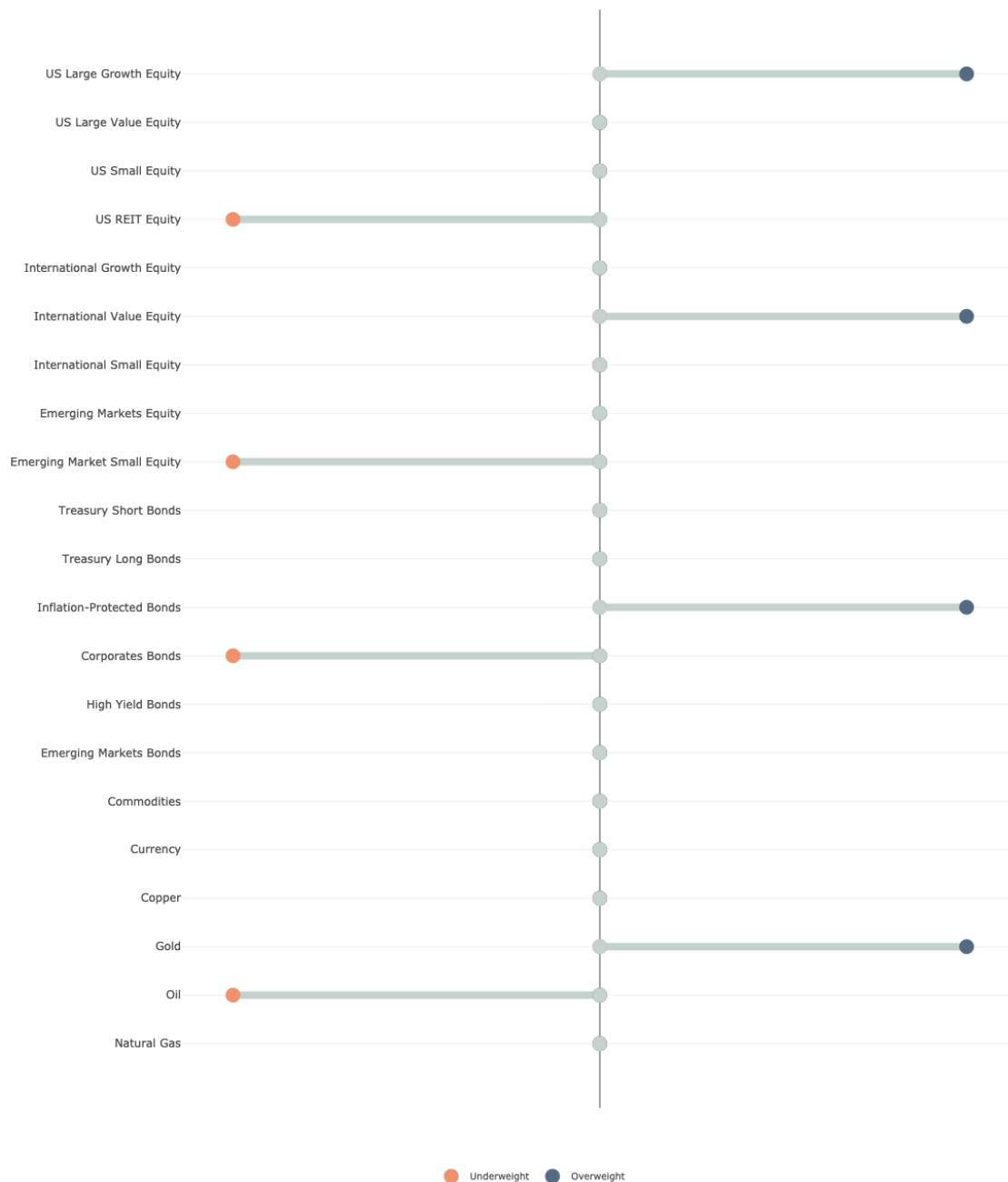
CRM View

The cycle that began with asset inflation now converges toward valuation exhaustion. Fiscal imbalance, real yields above growth, and the migration of risk into private markets erode the margin of error. Stimulus will not determine the next phase, but by discipline: in policy, in allocation, and in conviction.

Confidence acts like leverage when untethered from fundamentals. It magnifies both prosperity and fragility. The investor's task is no longer to forecast liquidity, but to measure belief. **Discipline does not oppose confidence — it restores it.**

Exhibit A1. Tactical Asset Allocation Positioning

Six-to 18-month asset allocation perspective



Note: Positioning is indicative of the themes discussed in this report and is valid as of the report date. Views are subject to change. These statements are forward-looking, and there are no assurances that such events will transpire. The positioning does not reflect actual positions and does not consider an investor's objectives, risk preferences, or their current asset allocation. Seek professional advice when undertaking any investment program.

Sector	ETF	QTD	YTD	One-Year	Three-Year	Five-Year
Global Equity	ACWI	7.5	18.6	20.1	19.2	12.9
Global Equity xUS	ACWX	6.7	26.4	20	16.8	9.7
US Total Market	ITOT	8.2	14.2	19.8	20.1	14.8
US Large Cap	IVV	8.1	14.7	20.1	20.9	15.6
US Growth	IUSG	9.6	18.6	29.2	23.8	15.4
US Value	IUSV	6.1	9.4	8	15.7	14.8
US Mid	IJH	5.6	5.7	7.3	12.1	12.8
US Mid Growth	IJK	5.6	6	6.3	12.6	10.3
US Mid Value	IJJ	5.4	5.1	8.1	11.3	15
US Small	IJR	9.1	4.2	4.5	8.9	11.8
US Small Growth	IJT	6.6	5.2	3.3	9.3	10
US Small Value	IJS	11.7	3.1	5.5	8.1	13.1
US REIT	USRT	4.6	4.3	0.5	6	8.5
International	EFA	4.5	25.6	16	18	10.7
Int Growth	EFG	1.7	18.8	7.8	13.9	6.3
Int Value	EFV	6.9	32.1	24	22	14.7
Int Small	SCZ	5.6	28.2	20.3	14.9	8.2
Emerging Markets	EEM	10.7	28.9	26.4	13.4	6.1
EM Small	EEMS	4.7	17.6	12.7	13.4	11.6
US Aggregate	AGG	2.1	6.2	4.3	3.4	-0.5
US Corporate	USIG	2.7	7.1	5.8	5.5	0.5
US Treasury	GOVT	1.5	3	3.2	2.4	-1.3
US Mortgage-Backed	MBB	2.4	6.8	4.5	3.3	-0.2
US Municipal	MUB	2.7	2.1	2.3	3.2	0.8
US Inflation-Protected	TIP	2.1	6.9	5.1	2.3	1.1
US High Yield	HYG	2.1	7.3	9	9.3	4.6
Government Bonds	IGOV	-1.2	10.9	4.4	3.1	-4.2
EM Bonds	EMB	4.1	10.7	9.7	9.4	1.3
Gold	GLD	16.6	46.8	53.7	30.7	14
Dollar	UUP	2.3	-6.5	1.7	2	4.4
Commodities	GSG	4.2	5.5	9.2	1.1	15.3

Performance period ends September 30, 2025. Returns are based on the total return of the Exchange Traded Fund. Return periods of more than one year are annualized.

Artful Questions. Scientific Solutions. TM

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